

25102487D

**SENATE BILL NO. 1113**

Offered January 8, 2025

Prefiled January 7, 2025

A *BILL to amend and reenact § 58.1-3220 of the Code of Virginia and to amend the Code of Virginia by adding in Article 3 of Chapter 3 of Title 58.1 a section numbered 58.1-339.15, relating to income tax credit; adaptive repurposing of underutilized structures; Affordable Dwelling Units.*

Patron—Williams Graves

Referred to Committee on Finance and Appropriations

**Be it enacted by the General Assembly of Virginia:**

**1. That § 58.1-3220 of the Code of Virginia is amended and reenacted and that the Code of Virginia is amended by adding in Article 3 of Chapter 3 of Title 58.1 a section numbered 58.1-339.15 as follows:**

**§ 58.1-339.15. Adaptive repurposing of underutilized structures tax credit.**

A. For purposes of this section:

"At-risk locality" means a locality of the Commonwealth (i) with an annual unemployment rate for the most recent calendar year for which such data is available that is greater than the final statewide average unemployment rate for that calendar year and (ii) with a poverty rate for the most recent calendar year for which such data is available that exceeds the statewide average poverty rate for that year.

"Eligible developer" means a person, including a real estate investment trust, having an ownership interest in a qualified converted building who contracts for or undertakes the qualifying residential conversion and incurs eligible expenses.

"Eligible expenses" means expenses incurred in connection with the qualifying residential conversion of a building to a qualified converted building. "Eligible expenses" does not include (i) any costs associated with the acquisition of any building or interest thereon, (ii) any expenses incurred that are attributable to the enlargement of an existing building, or (iii) any expenses incurred in connection with the conversion of a building that is allocable to the portion of the property that is a tax-exempt use property under Virginia law.

"Qualified converted building" means any building and its structural components if (i) prior to conversion, such building was not a residential property and was only made available to commercial office tenants; (ii) such building was substantially converted from office use to residential use in a qualifying residential conversion; (iii) such building was first placed into service at least 25 years prior to the start of a qualifying residential conversion; and (iv) depreciation is allowed for such building.

"Qualifying residential conversion" means the conversion of a building and its structural components from office use to residential use in a qualified converted building such that, at completion, (i) at least 20 percent of the residential units at such converted building are both rent-restricted and occupied by individuals with per capita income below 80 percent of the median per capita income for the locality in which such converted building is located or (ii) the converted building owner is subject to a binding, written agreement with the Commonwealth or the locality regarding the provision of affordable housing and such agreement is documented in the form and manner required by the Department of Housing and Community Development.

"Substantially converted" means the conversion of a building from office use to residential use in a qualifying residential conversion if the eligible expenses incurred within the taxable year the qualified converted building is placed into service exceed the greater of (i) the adjusted basis of the building and its structural components or (ii) \$15,000. The adjusted basis of the building shall be determined as of the first day of the taxable year in which a credit under this section is claimed.

B. For taxable years beginning on and after January 1, 2025, but before January 1, 2030, an eligible developer who incurs eligible expenses shall be entitled to a nonrefundable credit against the tax imposed by Articles 2 (§ 58.1-320 et seq.), 6 (§ 58.1-360 et seq.), and 10 (§ 58.1-400 et seq.). The amount of the credit shall equal (i) 20 percent of the amount of eligible expenses incurred in connection with the qualifying residential conversion to a qualified converted building or (ii) 30 percent of the amount of eligible expenses incurred in connection with the qualifying residential conversion to a qualified converted building in an at-risk locality, but in no event shall the aggregate amount of credits allowed to any taxpayer exceed \$2.5 million in any single taxable year. The credit shall be claimed only in the year in which the qualified converted building is placed into service for residential purposes. The aggregate amount of credits allowed to all taxpayers in any taxable year shall not exceed \$30 million.

C. The amount of the credit that may be claimed in any single taxable year shall not exceed the individual's liability for taxes imposed by this chapter for that taxable year. If the amount of the credit allowed under this section exceeds the individual's tax liability for the taxable year in which the eligible

INTRODUCED

SB1113

59 *transaction occurred, the amount that exceeds the tax liability may be carried over for credit against the*  
60 *income taxes of the individual in the next five taxable years or until the total amount of the tax credit has*  
61 *been taken, whichever is sooner. Credits granted to a pass-through entity shall be passed through to the*  
62 *partners or shareholders and allocated among all partners or shareholders, either in proportion to their*  
63 *ownership interest in such entity or as the partners or shareholders mutually agree as provided in an*  
64 *executed document, the form of which shall be prescribed by the Director of the Department of Housing and*  
65 *Community Development.*

66 *D. To claim the credit authorized under this section, the taxpayer shall apply to the Department of*  
67 *Housing and Community Development, which shall determine the amount of eligible expenses such taxpayer*  
68 *incurred and issue a certificate thereof to the taxpayer. The taxpayer shall attach the certificate to the*  
69 *Virginia tax return on which the credit is claimed.*

70 *E. The Tax Commissioner shall develop guidelines for claiming the credit provided by this section. The*  
71 *Director of the Department of Housing and Community Development shall develop guidelines for*  
72 *determining which expenditures shall qualify as eligible expenses. Such guidelines shall be exempt from the*  
73 *provisions of the Administrative Process Act (§ 2.2-4000 et seq.).*

74 **§ 58.1-3220. Partial exemption for certain rehabilitated, renovated or replacement residential**  
75 **structures.**

76 A. The governing body of any county, city or town may, by ordinance, provide for the partial exemption  
77 from taxation of real estate on which any structure or other improvement no less than 15 years of age has  
78 undergone substantial rehabilitation, renovation or replacement for residential use, subject to such conditions  
79 as the ordinance may prescribe. The ordinance may, in addition to any other restrictions hereinafter provided,  
80 restrict such exemptions to (i) real property located within described zones or districts whose boundaries shall  
81 be determined by the governing body or (ii) *real property on which the improvement is a residential structure*  
82 *that has set aside at least 30 percent of such structure for Affordable Dwelling Units, as such term is defined*  
83 *in § 15.2-735.1.* The governing body of a county, city or town may (i) establish criteria for determining  
84 whether real estate qualifies for the partial exemption authorized by this provision, (ii) require such structures  
85 to be older than 15 years of age, (iii) establish requirements for the square footage of replacement structures,  
86 and (iv) place such other restrictions and conditions on such property as may be prescribed by ordinance.  
87 Such ordinance may also provide for the partial exemption from taxation of multifamily residential units that  
88 have been substantially rehabilitated by replacement for multifamily use.

89 B. The partial exemption provided by the local governing body may be an amount equal to the increase in  
90 assessed value or a percentage of such increase resulting from the rehabilitation, renovation or replacement of  
91 the structure as determined by the commissioner of revenue or other local assessing officer or an amount up  
92 to 50 percent of the cost of the rehabilitation, renovation or replacement, as determined by ordinance. The  
93 exemption may commence upon completion of the rehabilitation, renovation or replacement or on January 1  
94 of the year following completion of the rehabilitation, renovation or replacement and shall run with the real  
95 estate for a period of no longer than 15 years. The governing body of a county, city or town may place a  
96 shorter time limitation on the length of such exemption, or reduce the amount of the exemption in annual  
97 steps over the entire period or a portion thereof, in such manner as the ordinance may prescribe.

98 C. The local governing body or its designee shall provide written notification to the property owner of the  
99 amount of the assessment of the property that will be exempt from real property taxation and the period of  
100 such exemption. Such exempt amount shall be a covenant that runs with the land for the period of the  
101 exemption and shall not be reduced by the local governing body or its designee during the period of the  
102 exemption, unless the local governing body or its designee by written notice has advised the property owner  
103 at the initial time of approval of the exemption that the exempt amount may be decreased during the period of  
104 such exemption. In no event, however, shall such partial exemption result in totally exempting the value of  
105 the structure.

106 D. Nothing in this section shall be construed as to permit the commissioner of the revenue to list upon the  
107 land book any reduced value due to the exemption provided in subsection B.

108 E. The governing body of any county, city or town may assess a fee not to exceed \$125 for residential  
109 properties, or \$250 for commercial, industrial, and/or apartment properties of six units or more for processing  
110 an application requesting the exemption provided by this section. No property shall be eligible for such  
111 exemption unless the appropriate building permits have been acquired and the commissioner of the revenue  
112 or assessing officer has verified that the rehabilitation, renovation or replacement indicated on the application  
113 has been completed.

114 F. Where rehabilitation is achieved through demolition and replacement of an existing structure, the  
115 exemption provided in subsection A shall not apply when any structure demolished is a registered Virginia  
116 landmark or is determined by the Department of Historic Resources to contribute to the significance of a  
117 registered historic district.